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IN THIS ISSUE:

Japan's Economy Facing New Problems? 1

Technology Flowing From Japan 3

Administration Briefs Senate On SII Talks 4

Dialogue Continues On Host-Nation Support 6

Notes: NTT Reorganization; TSE Membership; Retirement Age; Forklifts; Steel 7

Statistical Supplement 11

Japan's Economy Facing New Problems?

Japanese analysts sometimes have described Japan's economy since the Plaza Accord in September 1985 as enhanced by so-called triple merits: low interest rates, cheap oil and a strong yen. Together these forces were said to accelerate Japan's rate of economic expansion. Four and a half years later some analysts say the ground has shifted, with at least some of these advantages becoming disadvantages.

Tokyo could do little in late 1985 to guarantee cheap oil, but the other elements were under its influence, if not control. Falling oil prices and other factors in 1985 and early 1986 led the current account surplus higher, and oil prices and the chronic current account surplus together helped strengthen the yen during this period. To prevent runaway appreciation of the yen the Bank of Japan bought dollar-denominated securities for much of the period between September 1985 and April 1989, thereby increasing the demand for dollars and the supply of yen. This latter action, which added to Japan's foreign exchange reserves, tended to increase the money supply.

Steel - Nearly six months after the Bush administration's steel restraint program went into effect, nine of the 17 country participants (South Korea and Brazil plus seven swing suppliers) still have not signed the new arrangements. This delay has extended the news blackout on the specifics of the individual pacts, each of which includes an agreement to end practices that distort world trade in steel (see JEI Report No. 47B, December 15, 1989). With the late February signing of the voluntary restraint agreement negotiated with Japan, however, the Department of Commerce has released the details of how much steel this country's number-two foreign supplier can ship to the United States during the October 1989-December 1990 period, the first of two 15-month quota periods. The outlines of the VRA had been disclosed previously, including the fact that only Japan had its shipment ceiling lowered, but the Commerce document spells out how this cut has been allocated across product lines.

Export Ceiling on Japanese Steel, October 1989-December 1990

Product Category	Share of U.S. Apparent Consumption		New Ceiling
	Old VRA	New VRA	(metric tons)
Semifinished Steel	*	0.088%	94,782
Plate	0.60%	0.990	63,902
Sheet and Strip	5.57	5.730	3,214,115
Cold-Rolled Sheet and Strip	4.59	4.590	751,934
Coated Sheet and Strip	12.04	11.690	1,767,674
Electrogalvanized	****	16.390	444,866
Electrical Sheet and Strip	6.23	6.670	37,335
Tin Plate	5.53	5.790	188,855
Tin-Free Steel	6.27	6.620	71,893
Bar	1.50	0.600	89,999
Cold-Finished Bar	4.54	2.000	32,940
Stainless Bar	***	10.470	17,171
Wire Rod and Wire Products	6.71	6.030	484,752
Wire Rod	5.93	5.930	353,932
Stainless Rod	***	10.440	7,151
Structural Shapes	8.52	7.110	708,405
Rail and Rail Products	10.25	9.560	94,309
Fabricated Structurals	*	**	50,453
Welded H-Beams	****	**	30,000
Pipe and Tube	13.26	8.650	640,965
Oil-Country Tubular Goods	17.56	9.660	151,734
Line Pipe	15.52	15.520	292,630
Structural Pipe	24.18	12.000	67,620
Alloy Tool Steel	***	5.890	5,684
Total	6.19	5.000	5,737,629

*Previously restrained on a volume basis, not as a share of U.S. apparent consumption.

**Currently restrained on a volume basis, not as a share of U.S. apparent consumption.

***New category. These products previously were restrained under a specialty steel orderly marketing agreement that expired in September 1989 and could not be renewed.

****New subcategory.

Source: Department of Commerce

Trade and Payments Data

(in millions of dollars unless otherwise indicated)

	1987	1988	January-December 1988	January-December 1989	October 1989	November 1989	December 1989
Japan's Balance of Payments							
Trade Balance	$96,386	$95,012	$95,012	$77,130*	$5,461*	$4,493*	$6,301*
Exports (f.o.b.)	224,605	259,765	259,765	269,631*	22,370*	21,606*	23,993*
Imports (f.o.b.)	128,219	164,753	164,753	192,501*	16,909*	17,113*	17,692*
Current Account Balance	87,015	79,631	79,631	56,975*	3,589*	4,264*	3,818*
Long-Term Capital (net)	-136,532	-130,930	-130,930	-87,928*	-25,477*	-7,866*	3,387*
Overall Balance	-29,545	-28,982	-28,982	-33,286	-36,866	231	7,348
International Reserves (end of period)	81,479	97,662	97,662	84,895	84,293	84,747	84,895
Japan's Customs Clearance Trade							
Trade Balance	79,706	77,563	77,563	64,328	4,651	3,527	6,208
Exports (f.o.b.)	229,221	264,917	264,917	275,175	23,019	22,077	24,655
Cars	35,693	38,671	38,671	38,820*	3,142	3,161	3,152*
Steel	12,610	15,322	15,322	14,791*	1,164	1,046	1,318*
Imports (c.i.f.)	149,515	187,354	187,354	210,847	18,368	18,550	18,446
Crude Oil	20,663	18,852	18,852	21,539*	1,715	2,042	2,381*
Manufactured Products	65,961	91,838	91,838	106,110*	9,542	9,403	9,177*
Japan-U.S. Trade							
Trade Balance	52,090	47,597	47,597	45,002*	3,828	3,562	3,831*
Exports (f.o.b.)	83,580	89,634	89,634	93,186*	7,918	7,656	7,755*
Imports (c.i.f.)	31,491	42,037	42,037	48,184*	4,090	4,094	3,924*
Yen-Dollar Exchange Rate (average for period)	Y144.64	Y128.15	Y128.15	Y138.00	Y141.93	Y143.52	Y143.60
U.S. Trade							
Trade Balance	-152,119	-118,526	-118,526	-108,576*	-11,498	-10,562	-6,409*
Exports (f.a.s.)	254,122	322,426	322,426	364,350*	31,906	30,352	31,183*
Imports (Customs)	406,241	440,952	440,952	472,926*	43,404	40,913	37,591*
U.S.-Japan Trade							
Trade Balance	-56,326	-51,794	-51,794	-49,002*	-4,907	-4,000	-3,485*
Exports (f.a.s.)	28,249	37,725	37,725	44,584*	3,724	3,752	4,073*
Imports (Customs)	84,575	89,519	89,519	93,586*	8,631	7,752	7,558*

*Preliminary

Japanese Economic Indicators

(percent change from year-earlier period unless otherwise indicated)

	1987	1988	January-December 1988	January-December 1989	October 1989	November 1989	December 1989
Discount Rate (end of period)	2.5%	2.5%	2.5%	4.25%	3.75%	3.75%	4.25%
Outstanding Money Supply	10.4%	11.2%	11.2%	9.9%	9.6%	9.9%	10.6%
Industrial Production	3.4%	9.5%	9.5%	6.0%	5.5%	3.6%	3.1%
Manufacturing Operating Rate	0.1%	5.9%	5.9%	2.3%	2.1%	0.1%	-0.7%
Number of Bankruptcies	-27.6%	-20.0%	-20.0%	-28.4%	-33.3.%	-36.9%	-40.0%
Residential Construction Starts	22.7%	0.6%	0.6%	-1.3%	2.8%	3.2%	0.6%
Job Openings to Applications (ratio)	0.70	1.02	1.02	1.26	1.30	1.32	1.32
Nominal Wages	1.9%	3.8%	3.8%	4.7%	3.7%	5.6%	5.7%
Manufacturing Labor Productivity	5.8%	11.5%	11.8%*	7.1%*	3.3%	n.a.	n.a.
Wholesale Prices	-3.7%	-1.0%	-1.0%	2.5%	3.3%	3.8%	3.9%
Consumer Prices	0.1%	0.7%	0.7%	2.3%	2.9%	2.3%	2.6%
Yen-Based Export Prices	-5.1%	-2.2%	-2.2%	4.4%	4.4%	7.0%	7.2%
Yen-Based Import Prices	-8.3%	-4.6%	-4.6%	7.7%	9.2%	14.8%	15.3%

*Through October of each year only.

For Japan's latest GNP figures, see JEI Report No. 47B, December 15, 1989.